

**REPORT OF THE AUDIT OF THE
LARUE COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
May 2, 2007 Through April 30, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LARUE COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
May 2, 2007 Through April 30, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for LaRue County Sheriff for the period May 2, 2007 through April 30, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,678,654 for the districts for 2007 taxes, retaining commissions of \$193,326 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,421,623 to the districts for 2007 taxes. Taxes of \$58,320 are due to the districts from the Sheriff and refunds of \$252 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Distribute Interest Earnings In A Timely Manner

Deposits:

The Sheriff's deposits as of December 4, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,101,409

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tommy Turner, LaRue County Judge/Executive
Honorable Bobby Shoffner, LaRue County Sheriff
Members of the LaRue County Fiscal Court

Independent Auditor's Report

We have audited the LaRue County Sheriff's Settlement - 2007 Taxes for the period May 2, 2007 through April 30, 2008. This tax settlement is the responsibility of the LaRue County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the LaRue County Sheriff's taxes charged, credited, and paid for the period May 2, 2007 through April 30, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tommy Turner, LaRue County Judge/Executive
Honorable Bobby Shoffner, LaRue County Sheriff
Members of the LaRue County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Distribute Interest Earnings In A Timely Manner

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

December 5, 2008

LARUE COUNTY
BOBBY SHOFFNER, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period May 2, 2007 Through April 30, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 709,197	\$ 463,806	\$ 2,185,094	\$ 594,192
Tangible Personal Property	51,218	31,094	99,626	61,751
Fire Department Dues		208,335		
Fire Protection	1,010			
Increases Through Exonerations	93	58	286	78
Franchise Taxes	99,031	59,769	221,799	
Bank Franchises	50,155			
Penalties	6,925	6,857	21,266	5,844
Adjusted to Sheriff's Receipt	381	(173)	302	36
Gross Chargeable to Sheriff	918,010	769,746	2,528,373	661,901
<u>Credits</u>				
Exonerations	3,596	32,782	11,041	3,045
Discounts	12,896	10,218	35,615	10,281
Delinquents:				
Real Estate	939	2,637	2,894	787
Tangible Personal Property	62	123	105	106
Franchise Taxes	19,072	11,290	41,887	
Total Credits	36,565	57,050	91,542	14,219
Taxes Collected	881,445	712,696	2,436,831	647,682
Less: Commissions *	37,749	30,290	97,473	27,814
Taxes Due	843,696	682,406	2,339,358	619,868
Taxes Paid	830,854	673,173	2,298,535	619,061
Refunds (Current and Prior Year)	994	678	3,107	858
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	\$ 11,848	\$ 8,555	\$ 37,716	\$ (51)

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

LARUE COUNTY
BOBBY SHOFFNER, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES
For The Period May 2, 2007 Through April 30, 2008
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,231,823
4% on	\$	2,436,831

** Special Taxing Districts:

Library District	\$	4,338
Health District		1,448
Extension District		2,105
City of Upton		468
Magnolia Fire Dues		70
Rolling Fork Fire Dues		47
LaRue County Fire Dues		41
New Hope Fire Dues		(201)
Buffalo Fire Dues		79
Upton Fire Dues		<u>160</u>

Due Districts or

(Refund Due Sheriff)	\$	<u><u>8,555</u></u>
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LARUE COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The LaRue County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LARUE COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 30, 2008
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 4, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,101,409

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 29, 2007 through April 30, 2008.

Note 4. Interest Income

The Sheriff earned \$2,388 as interest income on 2007 taxes. As of December 5, 2008, the Sheriff owed \$1,190 in interest to the school district and \$1,198 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Sheriff collected \$34,538 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Sheriff did not collect advertising costs or advertising fees.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2004	\$	16,343
2005	\$	1,287
2006	\$	9,340

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff sent a written report to the Treasury Department and submitted \$16,343 to the Kentucky State Treasurer in accordance with KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Turner, LaRue County Judge/Executive
Honorable Bobby Shoffner, LaRue County Sheriff
Members of the LaRue County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the LaRue County Sheriff's Settlement - 2007 Taxes for the period May 2, 2007 through April 30, 2008, and have issued our report thereon dated December 5, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LaRue County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the LaRue County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the LaRue County Sheriff's Settlement - 2007 Taxes for the period May 2, 2007 through April 30, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Distribute Interest Earnings In A Timely Manner

This report is intended solely for the information and use of management, the LaRue County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

December 5, 2008

COMMENT AND RECOMMENDATION

LARUE COUNTY
BOBBY SHOFFNER, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 2, 2007 Through April 30, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earnings In A Timely Manner

The Sheriff did not distribute interest earnings on tax collections. KRS 134.140(3)(b) requires the Sheriff at the time of his monthly distribution of taxes to the district school, to pay the school that part of his investment earnings for the month that is attributable to the investment of school taxes. The Sheriff is allowed to charge up to 4% of the earned monthly investment income for administrative expenses. The Sheriff earned \$2,388 of interest on tax collections and did not remit the portion of interest that was due to the school. The Sheriff should distribute \$1,190 to the school and \$1,198 to his fee account for interest earned on tax collections. We recommend the Sheriff distribute interest earnings on a monthly basis as required.

Sheriff's Response: No response provided.

